

Message Text

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AMEMBASSY JIDDA

AMEMBASSY TEHRAN

AMEMBASSY KUWAIT

AMEMBASSY TIPOLI

AMCONSUL MILAN UNN

AMCONSUL NAPLES UNN

AMCONSUL GENOA UNN

AMCONSUL PALERMO UNN

AMCONSUL FLORENCE UNN

AMCONSUL TRIESTE UNN

AMCONSUL TURIN UNN

C O N F I D E N T I A L ROME 16028

LIMDIS

E.O. 11652: GDS

TAGS: ENRG, IT

SUBJECT: NEW ITALIAN ENERGY CRISIS

REF: ROME A-610, 9/26/74 (NOTAL)

1. SUMMARY: COMBINATION OF BAD PLANNING, BAD CIRCUMSTANCES AND
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BAD DOMESTIC ECONOMIC POLICY HAS GRAVELY ACCENTUATED ITALIAN
ENERGY SITUATION. STATE ELECTRICITY AUTHORITY ENEL CURRENTLY
LIVING FROM HAND TO MOUTH AND POSSIBILITY EXISTS OF WIDESPREAD
SHUTDOWNS CAUSE BY LACK OF FUEL OIL WITH CONSEQUENT SERIOUS EFFECTS

ON INDUSTRIAL PRODUCTION. SHORT TERM RELIEF APPEARS TECHNICALLY DIFFICULT.

2. RECENT PRESS REPORTS HIGHLIGHTING CURRENT DIFFICULTIES OF ITALIAN STATE ELECTRICITY AUTHORITY ENEL APOCALYPTIC AS THEY HAVE BEEN,

MAY HAVE UNDERSTATED MAGNITUDE OF SHORT-TERM ITALIAN ENERGY SITUATION. BASIC PROBLEM CENTERS ON LACK OF HEAVY FUEL OIL. ENEL, WHICH REQUIRES 1.65 MILLION M.T. PER MONTH TO GENERATE ELECTRICITY NECESSARY TO MEET NORMAL NOVEMBER DEMAND, WILL GET ONLY ABOUT 1.1 MILLION M.T. FROM NORMAL CHANNELS. THE 5.5 MILLION M.T. SHORT-FALL WILL BE MET BY IMPORTING AS MUCH AS 300,000 M.T. DIRECTLY BY ENEL (INDUSTRY SOURCES CHALLENGE THIS FIGURE, CHARGING THAT ENEL HAS UNLOADING CAPACITY SUFFICIENT FOR ONLY 200,000 M.T.), AND EMPLOYING A VARIETY OF MEASURES SUCH AS CONVERTING PLANTS TO VIRGIN NAPHTHA WHERE POSSIBLE (TWO PLANTS) AND ADULTERATING HEAVY FUEL OIL WITH MIDDLE DISTILLATES CURRENTLY IN ADEQUATE SUPPLY. BOTH THESE PROGRAMS ENTAIL SIGNIFICANTLY HIGHER COSTS. ENEL IS RELUCTANT, IF NOT UNABLE, TO PAY ALL OF THE HIGHER COSTS FOR HEAVY FUEL OIL, AND THE SUPPLIERS ARE RELUCTANT TO FURNISH FURTHER CREDIT.

3. RESORT TO ENEL STOCKPILES IMPOSSIBLE SINCE SYSTEM NOW OPERATES WITH AVERAGE REPEAT AVERAGE RESERVES AMOUNTING TO ONLY 3-4 DAYS NORMAL REQUIREMENTS. MANDATORY STRATEGIC RESERVES EQUAL TO ABOUT

15 DAYS NORMAL CONSUMPTION EXIST, BUT MAY BE RELEASED ONLY BY GOI ACTION WITH PRIOR CONSENT EC PARTNERS.

4. NORMAL SUPPLIERS, EVEN IF WILLING, COULD NOT SIGNIFICANTLY AFFECT ENEL SITUATION IN SHORT-TERM DUE LACK OF STOCKS. INDUSTRY SOURCE TOLD EMBOFF THAT UNPROFITABILITY ITALIAN OPERATIONS, LARGE UNSOLD AMOUNTS OF GASOLINE WHICH HAVE ABSORBED UNDUE AMOUNTS OF AVAILABLE STORAGE AND CAUSED SLOWDOWNS IN REFINERY OPERATIONS, AND HIGHER PROFITS AVAILABLE ELSEWHERE IN EUROPE HAVE CAUSED COMPANIES TO MAINTAIN ONLY MINIMUM STOCKS NECESSARY FOR DAY-TO-DAY OPERATIONS. EVEN THOUGH MULTINATIONALS OPERATE ONLY AT MINIMUM
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CONTRACTUAL LEVELS, THEY CLAIM THAT DELIVERIES UP OVER 1973 LEVELS. MAJOR GAP IS DUE DISAPPEARANCE OF INDEPENDENTS, WHICH NORMALLY ACCOUNT FOR AS MUCH AS ONE-THIRD OF TOTAL FUEL OIL SUPPLIES. FACED WITH NET LOSS ON OPERATIONS, ALL THESE OPERATORS HAVE REFUSED TO IMPORT. THIS EVEN INCLUDES SOME OF THE LARGER "INDEPENDENTS" SUCH AS MONTI, PURCHASER OF BRITISH PETROLEUM'S ITALIAN INTERESTS LAST YEAR.

5. IN ADDITION TO IMMEDIATE RESUPPLY PROBLEM, ENEL LACKS SUFFICIENT BASIC GENERATING CAPACITY DUE TO FAILURE TO CONSTRUCT ENOUGH GENERATING FACILITIES (NOT, BY ANY MEANS, DUE ENTIRELY LACK OF EFFORT BY ENEL). THUS, ENEL CURRENTLY OPERATING WITHOUT ADEQUATE SAFETY MARGINS AND CONSEQUENTLY AT MERCY

ACCIDENTS OR MALFUNCTIONS IN EXISTING PLANTS, AND MORE IMPORTANTLY, UNABLE TO MEET UNFORESEEN SHARP RISE IN DEMAND FOR ELECTRIC POWER. THIS RISE CAUSED ESSENTIALLY BY HOUSEHOLD EFFORTS TO CONSERVE HEATING OIL THROUGH USE OF ELECTRIC SPACE HEATERS WHICH WARM, FOR INSTANCE, ONLY ONE ROOM OF A HOUSE INSTEAD OF ACTIVATING ENTIRE HOME-HEATING FACILITY. JUST AS IMPORTANTLY, ELECTRICITY IS BOUGHT ON CREDIT, WHILE OIL COMPANIES DEMAND PAYMENT IN CASH FOR HEATING OIL. COMPLETION OF NORTH-SOUTH GRID LINK (REPAIR) ON NOVEMBER 8, ALMOST TWO MONTHS AHEAD OF SCHEDULE, DOES NOT EASE SUPPLY SITUATION BUT WILL ENABLE ENEL TO SPREAD PROJECTED SHORTAGES OVER ENTIRE COUNTRY INSTEAD OF LIMITING THEM TO SOUTH AND CENTRAL ITALY.

6. CAUSES OF CURRENT SITUATION ARE ROOTED IN POLITICAL CHOICES MADE BY CURRENT GOVERNMENT, WHICH HAS CHOSEN TO SET PRICES AT LEVELS WELL BELOW THOSE PREVAILING IN OTHER EUROPEAN COUNTRIES AND INSUFFICIENT (SAY THE COMPANIES) TO COVER THEIR COSTS. WHILE SOME OF THE BURDEN HAS BEEN SHIFTED TO COMPANIES (THE INTERNATIONALS ARE, IN EFFECT, BEING SUBSIDIZED BY THE HOME OFFICES; THE INDEPENDENTS HAVE ABANDONED THE MARKET), THE MAJOR RESULT IS THAT NEITHER THE MAJORS NOR THE INDEPENDENTS ARE WILLING TO GUARANTEE THE SUPPLIES NECESSARY TO KEEP ITALY FUNCTIONING AND THE ARTIFICIALLY LOW PRICE LEVELS HAVE FAILED TO RESTRAIN CONSUMER DEMAND. THE GOI-CONTROLLED OIL COMPANY ENI IS LEFT IN THE POSITION OF RESIDUAL SUPPLIER, BUT IS DEPENDENT UPON GOVERNMENT FUNDING OF ITS DEFICITS, ESTIMATED AT AS MUCH AS \$400 MILLION FOR 1974.

7. THE SHORT-TERM OUTLOOK IS THUS NOT FAVORABLE. AGAINST NORMAL
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NOVEMBER FUEL OIL REQUIREMENTS OF APPROXIMATELY 3.75 MILLION M.T., THE SHORTFALL IS AT LEAST 500,000 M.T. OR 13 PERCENT. THIS COULD FORCE CHOICES BETWEEN RE-SUPPLYING INDUSTRY OR RE-SUPPLYING ENEL. THE PETROLEUM COMPANIES, IF THE CHOICE WAS THEIRS, WOULD SUPPLY INDUSTRY BECAUSE INDUSTRY PAYS MORE RAPIDLY. THE GOI IS NOT LIKELY, HOWEVER, TO PERMIT THE WIDESPREAD INTERRUPTIONS THAT THIS WOULD ENTAIL. BUT FOR THE GOI TO MAKE AN EXPLICIT DECISION IN FAVOR OF ONE OR THE OTHER IS UNLIKELY. ENEL, THUS, TO THE EXTENT NECESSARY, IS LIKELY TO RATION, EXPLICITLY OR IMPLICITLY, ITS ELECTRICITY ACCORDING TO ITS RESOURCES. NEWSPAPER REPORTS THAT ENEL HAS CUTOFF ELECTRICITY TO THE ELECTRIC FURNACES OF THE MILAN AND BRESCIA STEEL INDUSTRY FOR A PERIOD OF SIX DAYS MAY BE THE FIRST SIGN OF WHAT COULD BE A WIDESPREAD PRACTICE OVER THE NEXT FEW MONTHS. INDUSTRY, HOWEVER, IS NOT LIKELY TO TAKE THIS LYING DOWN, NOR ARE THE UNIONS REPRESENTING THE WORKERS LAID OFF BY THESE MOVES. EVENTUALLY, SOME SORT OF ALLOCATION PLAN-- RATIONING--WILL HAVE TO BE ADOPTED BEYOND THE PRELIMINARY PLANNING WHICH WOULD PERMIT IF NECESSARY ROTATING BLACKOUTS OF UP TO THREE HOURS THROUGHOUT THE COUNTRY (WHICH SUBSTITUTES FOR EARLIER MEASURES PERMITTING SIX HOUR BLACKOUTS IN CENTRAL AND SOUTHERN ITALY - SEE REPAIR). SOME INDUSTRY SOURCES PREDICT A REAL CRUNCH IN EARLY DECEMBER. HOWEVER, THE LONG SHUT-DOWNS

ENVISAGED IN THE AUTOMOBILE AND OTHER INDUSTRIES FOR THE CHRISTMAS PERIOD MAY GIVE ITALY A RESPITE FOR THE HOLIDAYS. AFTER JANUARY 1, FEW ARE WILLING TO MAKE PREDICTIONS. PRICE ADJUSTMENTS SUFFICIENT TO CAUSE RENEWED INTEREST IN THE ITALIAN MARKET ARE UNLIKELY INDEED, NO MATTER WHAT THE RESULTS OF THE CURRENT NEGOTIATIONS TOWARD THE FORMATION OF A NEW GOVERNMENT. SOME RUMORS OF A SPECIAL DEAL WITH SAUDI ARABIA ARE CIRCULATING, BUT GIVEN A SIXTY (60 DAY LEAD TIME BETWEEN DEAL AND DELIVERY TO THE CONSUMER, JANUARY COULD BE COLD AND DARK.

8. ALTHOUGH WE ACCEPT BY AND LARGE THE FACTS OF THE BLEAK SITUATION THAT THE COMPANIES AND THE ASSOCIATION DESCRIBE, THIS IS NOT THE FIRST TIME THAT DISASTER HAS BEEN PREDICTED. VOLPE

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